

OIL AND GAS LEASE

This Oil and Gas Lease ("lease") is made 3rd day of November, 2011, but is effective the 17<sup>th</sup> day of November, 2011 by and between the Owen L. Jacobs and Vauna Lee Jacobs Revocable Trust, dated March 23, 1999, whose Trustees are Owen L. Jacobs and Vauna Lee Jacobs, whose address is 34927 Jacobs Road, Hotchkiss, CO 81419 "Lessor", (whether one or more) and Gunnison Energy Corporation, whose address is 1801 Broadway, Suite 1200, Denver, CO 80202, (Lessee").

WITNESSETH, For and in consideration of TEN DOLLARS, the covenants and agreements contained herein, and other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, Lessor does hereby grant, demise, lease and let exclusively unto said Lessee, with the exclusive rights for the purposes of mining, exploring by geophysical and other methods and operating for and producing therefrom oil and all gas of whatsoever nature or kind (including coalbed gas), and laying pipelines, telephone and telegraph lines, building tanks, plants, power stations, roadways and structures thereon to produce, save and take care of said products (including dewatering of coalbed gas wells), and the exclusive surface and subsurface rights and privileges related in any manner to any and all such operations, and any and all other rights and privileges necessary, incident to, or convenient for the operation alone or conjointly with neighboring land for such purposes, all that certain tract or tracts of land situated in County of Gunnison, State of Colorado, described as follows, to-wit:

Township 11 South, Range 90 West, 6<sup>th</sup> P.M.

HES No. 253 situated in Section 31

Township 12 South, Range 90 West, 6<sup>th</sup> P.M.

HES No. 253 situated in Section 6

More particularly described by meets and bounds in deed #492303

See "ADDENDUM A" attached hereto and made a part hereof

1. Lessor agrees to execute any supplemental instrument requested by Lessee for a more complete or accurate description of said land. For the purpose of determining the amount of any bonus, delay rental, or other payment hereunder, said land shall be deemed to contain 160.00 acres, whether actually containing more or less, and the above recital of acreage in any tract shall be deemed to be the true acreage thereof. Lessor accepts the consideration hereinabove stated and agrees to accept the delay rentals, as lump sum consideration for this lease and all rights and options hereunder.

2. It is agreed that this Lease shall remain in force for a term of five (5) years from this date ("Primary Term") and as long thereafter as oil or gas of whatsoever nature or kind is produced from the Premises or on acreage pooled or unitized therewith, or operations are continued as hereinafter provided. If, at the expiration of the Primary Term, oil or gas is not being produced from the Premises or on acreage pooled or unitized therewith but Lessee is then engaged in drilling, reworking or dewatering operations thereon, then this Lease shall continue in force so long as such operations are being continuously prosecuted. Operations shall be considered to be continuously prosecuted if not more than ninety (90) days shall elapse between the completion or abandonment of one well and the beginning of operations for the drilling of a subsequent well. If after discovery of oil or gas on the Premises or on acreage pooled or unitized therewith, the production thereof should cease from any cause after the primary term, this Lease shall not terminate if Lessee commences additional drilling, reworking or dewatering operations within ninety (90) days from date of cessation of production or from date of completion of dry hole. If oil or gas shall be discovered and produced as a result of such operations at or after the expiration of the Primary Term, this Lease shall continue in force so long as oil or gas is produced from the Premises or on acreage pooled or unitized therewith.

3. Lessee covenants and agrees to pay royalty to Lessor as follows:

(a) On oil, to deliver to the credit of Lessor, free of cost in the pipe line to which Lessee may connect wells on the Premises, the equal twenty per cent (20%) part of all oil produced and saved from the Premises.

(b) On gas of whatsoever nature or kind, including coalbed gas and other gases, liquid hydrocarbons and their respective constituent elements, casinghead gas or other gaseous substances, produced from the Premises ("gas") Lessee shall pay, at its election, either of the following, as royalty: (i) for Gas sold or used off the Premises, twenty per cent (20%) of the amount realized from Gas so sold or used (Lessor's interest in Gas shall bear its proportionate part of the cost of off-lease transportation incurred in marketing Gas so sold or used) and taxes; (ii) for Gas sold at the well, twenty per cent (20%) of the amount realized from such sale.

4. Where Gas from a well capable of producing Gas (or from a well in which dewatering operations have commenced), is not sold or used after the expiration of the Primary Term, Lessee shall pay or tender as royalty to Lessor at the address set forth above Five Dollars per year per net mineral acre, such payment or tender to be made on or before the anniversary date of this Lease next ensuing after the expiration of 90 days from the date such well is shut in or dewatering operations are commenced and thereafter on or before the anniversary date of this Lease during the period such well is shut in or dewatering operations are being conducted.

5. If operations are not conducted on said land on or before the first anniversary date hereof, this lease shall terminate as to both parties, unless Lessee on or before said date shall, subject to the further provisions hereof, pay or tender to Lessor or to Lessor's credit in North Fork Bank, at Hotchkiss, CO, or its successors, which shall continue as the depository, regardless of changes in ownership of delay rental, royalties, or other moneys, the sum of \$800.00 which shall operate as delay rental and cover the privilege of deferring operations for one year from said date. In like manner and upon like payments or tenders, operations may be further deferred for like periods of one year each during the primary term. If at any time that Lessee pays or tenders delay rental, royalties, or other moneys, two or more parties are, or claim to be, entitled to receive same, Lessee may, in lieu of any other method

of payment herein provided, pay or tender such rental, royalties, or other moneys, in the manner herein specified, either jointly to such parties or separately to each in accordance with their respective ownerships thereof, as Lessee may elect. Any payment hereunder may be made by check or draft of Lessee deposited in the mail or delivered to Lessor or to a depository bank on or before the last date for payment. Said delay rental shall be apportionable as to said land on an acreage basis, and a failure to make proper payment or tender of delay rental as to any portion of said land or as to any interest therein shall not affect this lease as to any portion of said land or as to any interest therein as to which proper payment or tender is made. Any payment or tender which is made in an attempt to make proper payment, but which is erroneous in whole or in part as to parties, amounts, or depository shall nevertheless be sufficient to prevent termination of this lease and to extend the time within which operations may be conducted in the same manner as though a proper payment had been made; provided, however, Lessee shall correct such error within thirty (30) days after Lessee has received written notice thereof from Lessor. Lessee may at any time and from time to time execute and deliver to Lessor or file for record a release or releases of this lease as to any part or all of said land or of any mineral or horizon thereunder, and thereby be relieved of all obligations as to the released acreage or interest. If this lease is so released as to all minerals and horizons under a portion of said land, the delay rental and other payments computed in accordance therewith shall thereupon be reduced in the proportion that the acreage released bears to the acreage which was covered by this lease immediately prior to such release.

6. If Lessor owns a lesser interest in the Premises than the entire and undivided fee simple estate therein, then the royalties (including any shut-in gas royalty) herein provided for shall be paid Lessor only in the proportion which Lessor's interest bears to the whole and undivided fee.

7. Lessee shall have the right to use, free of cost, Gas, oil and water produced on the Premises for Lessee's operations thereon, except water from the wells of Lessor.

8. When requested by Lessor, Lessee shall bury Lessee's pipe line below plow depth.

9. No well shall be drilled nearer than 200 feet to the house or barn now on the Premises without written consent of Lessor.

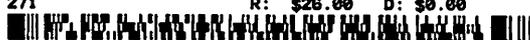
10. Lessee shall pay for damages caused by Lessee's operations to growing crops on the Premises.

11. Lessee shall have the right at any time to remove all machinery and fixtures (including casing) Lessee has placed on the Premises.

12. The rights of the Lessor and Lessee hereunder may be assigned in whole or part. No change in ownership of Lessor's interest (by assignment or otherwise) shall be binding on Lessee until Lessee has been furnished with notice, consisting of certified copies of all recorded instruments or documents and other information necessary to establish a complete chain of record title from Lessor, and then only with respect to payments thereafter made. No other kind of notice, whether actual or constructive, shall be binding on Lessee. No present or future division of Lessor's ownership as to different portions or parcels of the Premises shall operate to enlarge the obligations or diminish the rights of Lessee, and all Lessee's operations may be conducted without regard to any such division. If all or any part of this Lease is assigned, no leasehold owner shall be liable for any act or omission of any other leasehold owner.

13. Lessee, at its option, is hereby given the right and power at any time and from time to time as a recurring right, either before or after production, as to all or any part of the Premises and as to any one or more of the formations thereunder, to pool or unitize the leasehold estate and the mineral estate covered by this Lease with other land, lease or leases in the immediate vicinity for the production of oil and gas, or separately for the production of either, when in Lessee's judgement it is necessary or advisable to do so, and irrespective of whether authority similar to this exists with respect to such other land, lease or leases. Likewise units previously formed to include formations not producing oil or gas, may be reformed to exclude such non-producing formations. The forming or reforming of any unit shall be accomplished by Lessee executing and filing of record a declaration of such unitization or reformation, which declaration shall describe the unit. Any unit may include land upon which a well has theretofore been completed or upon which operations for drilling have theretofore been commenced. Production, drilling, reworking or dewatering operations or a well shut in for want of a market anywhere on a unit which includes all or a part of this Lease shall be treated as if it were production, drilling, reworking or dewatering operations or a well shut in for want of a market under this Lease. In lieu of the royalties elsewhere herein specified, including shut-in gas royalties, Lessor shall receive royalties on production from such unit only on the portion of such production allocated to this Lease. In addition to the foregoing, Lessee shall have the right to unitize, pool, or combine all or any part of the Premises as to one or more of the formations thereunder with other lands in the same general area by entering into a cooperative or unit plan of development or operation approved by any governmental authority and, from time to time, with like approval, to modify, change or terminate any such plan or agreement and, in such event, the terms, conditions and provisions of this Lease shall be deemed modified to conform to the terms, conditions, and provisions of such approved cooperative or unit plan of development or operation and, particularly, all drilling and development requirements of this Lease, express or implied, shall be satisfied by compliance with the drilling and development requirements of such plan or agreement, and this Lease shall not terminate or expire during the life of such plan or agreement. In the event that the Premises or any part thereof, shall hereafter be operated under any such cooperative or unit plan of development or operation whereby the production therefrom is allocated to different portions of the land covered by said plan, then the production allocated to any particular tract of land shall, for the purpose of computing the royalties to be paid hereunder to Lessor, be regarded as having been produced from the particular tract of land to which it is allocated and not to any other tract of land; and royalty payments to be made hereunder to Lessor shall be based upon production only as so allocated. Lessor shall formally express Lessor's consent to any cooperative or unit plan of development or operation adopted by Lessee and approved by any governmental agency by executing the same upon request of Lessee.

14. All express or implied covenants of this Lease shall be subject to all Federal and State Laws, Executive Orders, Rules or Regulations, and this Lease shall not be terminated, in whole or in part, nor Lessee held liable in damages, for failure to comply therewith if compliance is prevented by, or if such failure is the result of, any such Law, Order, Rule or Regulation. Any delay or interruption caused by storm, flood, act of God or other event of force majeure shall not be counted against Lessee. If, due to the above causes or any cause whatsoever





**ADDENDUM A**

Attached to and made a part of that certain Oil and Gas Lease dated November 3, 2011 but date effective November 17, 2011, by and between the Owen L Jacobs and Vauna Lee Jacobs Revocable Trust dated March 23, 1999, whose Trustees are Owen L. Jacobs and Vauna Lee Jacobs, as Lessor, and Gunnison Energy Corporation, as Lessee covering lands in Gunnison County, Colorado.

Lessee shall take reasonable precautions to minimize adverse impact to Lessor's ranching operations on the leased premises. Lessee and Lessor shall enter into a mutually acceptable surface use agreement and to jointly agree on the initial well pad location prior to commencing construction regarding the well location, access roads, fences, pipelines or power lines, or installation of any production equipment, tank batteries or produced water equipment. Lessee shall pay Lessor for damages to Lessor's growing crops, grass, buildings, livestock, fences and other improvements and personal property caused by Lessee's operations. Lessee agrees there will be no surface disturbance in the northwest corner of the leased premises.

Lessee will follow generally accepted industry practices designed to protect fresh water strata from contamination and protect the surface from exposure to produced water and other contaminants. The use of fresh water provided for under this lease is limited to use for drilling operations only, and shall specifically exclude use of such water for pressure maintenance or water flood purposes. Produced water may be used for any purpose allowed by applicable laws and regulations.

Within six months after the termination of the lease, Lessee shall restore any of the leased premises disturbed by Lessee to a condition as near to its original condition as practicable, and remove all machinery and fixtures placed by Lessee on said premises pursuant to this lease.

This lease shall not be extended solely by the shut-in gas well payment for a period in excess of three years beyond the end of the primary term of this lease or three years beyond the date of completion of any gas well, whichever is later, unless the well is shut in as a consequence of a rule or order of any governmental agency or court having jurisdiction over the well.

This lease shall not terminate so long as drilling or re-working operations are being continuously prosecuted if not more than ninety days shall elapse between the completion or abandonment of one well and the beginning of operations for the drilling of another well.

Gunnison Energy Corporation will be operator as long as Gunnison Energy Corporation has a working interest in the well(s) on the leased premises.

In the event of a conflict between the body of the lease and this Addendum A, Addendum A shall control.

**SIGNED FOR IDENTIFICATION:**

**Owen L. Jacobs and Vauna Lee Jacobs Revocable Trust**

By: Owen L. Jacobs, Trustee, by Vauna Lee Jacobs  
Owen L. Jacobs, Trustee, by  
Vauna Lee Jacobs as POA P.O.A.

By: Vauna Lee Jacobs, Trustee  
Vauna Lee Jacobs, Trustee